

Memorandum

To: Panel Members Date: December 19, 2002

From: Diana Torres, Manager
Peter DeMauro, General Counsel Analyst: R. Negrete

Subject: One-Step Agreement for **McLane Suneast d.b.a. McLane Southern California**
(SET)(HUA)
(www.mclaneco.com)

CONTRACTOR:

- Training Project Profile: Training in High Unemployment Areas of California (SET)
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Services
- Repeat Contractor: No
- Contractor's Full Time Employees:
 - Company Wide: 15,000
 - In California: 583
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

CONTRACT:

- Program Costs: \$337,752
- Substantial Contribution: -0-
- Total ETP Funding: \$337,752
- In-Kind Contribution: \$594,243
- Reimbursement Method: Fixed-Fee
- County(ies) Served: San Bernardino
- Duration of Agreement: 24 months

SUBCONTRACTORS:

None

THIRD PARTY SERVICES:

Applicant representatives state that no third party services were used in the development of this Agreement.

NARRATIVE:

This Agreement was originally presented at the November 21, 2002 Panel meeting. However, a Panel member requested clarification on the eligibility determination process which resulted in McLane's eligibility under Title 22, California Code of Regulations (22 CCR), Section 4416 (a)(3)(4), Out-of-State Competition. Therefore, the proposal was referred back to staff.

While McLane does have out-of-state competition, which is set out later in the Memorandum, it is now requesting funding for its training proposal under 22 CCR, Section 4409(a)(5), Special Employment Training funds for High Unemployment Areas. Therefore, consideration under the out-of-state competition funding is no longer applicable.

McLane proposes to train 378 incumbent workers under the Special Employment Training (SET) funding provision which states in part that these projects are intended to improve the skills and employment security of frontline workers, who earn at least the state average hourly wage, except for workers with multiple barriers or from high unemployment areas. SET projects are not subject to out-of-state competition. In accordance with California Unemployment Insurance Code (CUIC), Section 10214.5, the Panel may waive the SET ETP wage requirements for frontline workers in high unemployment areas of the state, as long as they earn the standard ETP minimum wage. The proposed retrainees earn at least the standard ETP minimum wage for regular funding of \$11.15 per hour for San Bernardino County (Calendar Year 2002).

Training in High Unemployment Areas (HUAs)

In accordance with the enabling Legislation, the Panel may fund training of workers in regions suffering from high unemployment. The Panel has targeted a minimum of \$15 million in training funds to HUAs for FY 2002-03. Training projects in HUAs may be approved under both the regular Economic Development category (i.e., retraining of incumbent workers of businesses challenged by out-of-state competition, and training of unemployed workers for secure, well-paying jobs), and under the Special Employment Training (SET) category. In addition, a goal in this year's Strategic Plan is to fund training to increase the skills and employability of the workforce in areas of high unemployment.

McLane is requesting Panel funding for its San Bernardino facility. The City of San Bernardino has been determined under Panel policy, as of October 24, 2002 as a definable area with an unemployment rate exceeding the state average unemployment rate by 25 percent or more based on Labor Market Information Division and census data information. The City of San Bernardino's unemployment rate at the time of application was 8.1 percent, and the state average unemployment rate was 6.4 percent.

NARRATIVE: (continued)

All the proposed retrainees (378) meet 22 CCR, Section 4400 (ee) definition of a frontline worker in accordance with SET funding.

McLane Suneast d.b.a. McLane Southern California (McLane) was founded as a small retail grocery business by Robert McLane in 1894, going into the wholesale grocery business in 1903. McLane, now a wholly owned subsidiary of Wal-Mart, provides distribution services to more than 1,900 customers delivering food and non-food products to convenience stores, mass merchants, restaurants, club stores, drug stores, movie theaters and other specialty retailers. In the past two years, McLane has lost bids to competitors who service Southern California customers from out of state distribution facilities. For example, McLane lost the American Airlines (Southern California Airports) contract to the Michael Lewis Company. The distribution services provided by the Michael Lewis Company under this contract are now provided entirely from its distribution facility in Las Vegas, Nevada.

Operating in the highly competitive food distribution industry, McLane is striving to be the low cost provider of its products and services as it competes with similar suppliers from within and outside California. In addition, McLane must constantly adapt to change as it undergoes price pressures with a growing customer shift toward lower priced products and improved product quality, timelier delivery schedules, and the customer's demand for Web-based access to all company services.

The loss of the aforementioned contracts to other national suppliers headquartered outside of California, prompted McLane to conduct an internal audit which found that the company needed to improve customer service levels and support to customers as compared to their competitors. Ineffective customer service was found to be a contributing factor in losing contracts to their competitors. For example customer service clerks were taking insufficient customer information, which led re-ordering of products, which had already been delivered. Internal communication between company departments also needed to be improved, to provide customers the right order, the first time it was received, and to provide follow-up to the customer's request for status of orders.

The internal audit recommended that McLane streamline existing company operations to provide more efficient customer service and to reduce duplication of effort between company departments. The company's order processing system sometimes led to duplicate orders being processed, and inadequate communication between departments sometimes resulted in inadequate staffing in one department, while another department was working overtime to fulfill customer orders.

In response to the internal audit findings, an initial customer service training program was implemented for a selected number of sales, driver and customer service staff. The results were extremely successful, which prompted McLane to develop a company-wide training program to adapt to a high performance workplace model, with an intense focus on customer needs and improved communication between company departments.

NARRATIVE: (continued)

In addition, McLane customers are demanding Web-based access to all company services. A Web-based, e-commerce strategy is essential for continued success in the food distribution industry, and will be part of the adaptation to a high performance workplace. McLane's e-commerce strategy consists of two elements: 1) enabling company clients to access all their company information and processes with relevant and timely information, and 2) enabling business-to-business e-commerce with Web-delivered information and applications.

McLane's ability to address the above operational deficiencies and move to a high performance workplace depends on its ability to create a highly skilled and flexible workforce that can respond to market demands, increase productivity, adapt to customer quality demands and improve business techniques. McLane states that a trained workforce is essential toward becoming the low cost provider in the food distribution industry, while providing the highest quality products and customer service. To this end, McLane is requesting ETP training funds to assist with the implementation of a training plan designed to meet the aforementioned business and workforce needs.

Company training staff have developed a Menu Curriculum consisting of 36 to 80 hours of Business Skills, Computer Skills, and Continuous Improvement Class/Lab training, and 4 – 8 hours of Computer Based training (CBT) for 378 frontline employees.

Business Skills training will develop communication skills that are currently lacking in company administration and production staff in the various company departments. Project management training will enable company employees to accomplish more complex projects with a higher degree of effectiveness. Sales training for sales staff will emphasize the new sales and customer service models being developed to address business needs.

Computer Skills training will provide administrative and production employees the tools to use three in-house systems: an order processing system, Xeta and Telxon Credits. These applications allow McLane customers to have immediate access to their orders and accounts using the Internet. Additionally, multiple information systems are being replaced by these new multi-functional, multi-departmental systems, which will create a streamlined, seamless approach to tracking, reporting, analyzing, transferring to and communicating information between internal and external customers. Corporate IT employees will create e-commerce applications using Xeta and Telxon Credits, and will provide training to McLane retrainees to increase their skills in using these e-commerce systems.

Continuous Improvement training for administrative and production employees will include problem solving methodologies, leadership skills, total quality management, and decision-making skills to promote team development. In addition, leadership skills training will enable production and administrative staff to make key decisions at the lowest level of the organization.

The expected outcome for the ETP-funded training is a seven percent improvement in production quality.

There is no structured, on-site training in this Agreement.

NARRATIVE: (continued)

Supplemental Nature of Training

McLane Suneast d.b.a. McLane Southern California has certified in writing that ETP-funded training is supplemental to training it provides in the normal course of doing business. To date, McLane's training has been restricted to job-required skills training. Company employees are typically provided approximately 30 hours of training per year in new hire orientation, safety, job-specific skills training, and basic computer skills training. Most of the training is provided on the job. Due to resource constraints, the quantity and effectiveness of company training programs are limited.

The proposed ETP-funded training is in addition to the company's current training, and is designed to address the new skill requirements related to adapting to a high performance workplace and the implementation of the company's Web-based, e-business strategy. The training is designed to address those two initiatives and will provide retrainees with the new job skills required for the company's successful implementation of their business strategies.

McLane's annual expenditures for company-funded training that will be provided after ETP training is completed is projected to be \$179,000 made up of: \$35,000 for training materials, \$42,000 for developing and facilitating training, and \$102,000 for employee wages during training.

In-Kind Contribution

The total employer in-kind contribution is \$594,243. This consists of: \$100,000 in project development costs, training materials, and training of McLane employees not eligible for ETP reimbursement. The remaining \$494,243 is the amount for projected employee wages and fringe benefits paid during training.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement under SET HUA funding, if funds are available and the project meets Panel priorities. This project will ensure that McLane Suneast dba McLane Southern California will be able to provide its employees the skills to enable the company to adapt to a high performance workplace. ETP-funded training will enable company employees to provide excellent customer service and implement the company's Web-based, e-business strategy, and enable the company to remain viable in the California economy.

TRAINING PLAN:

Grp/ Trainee Type	Types of Training	No. Retain	No. Class/Lab Hours	No. CBT Hours	Cost per Trainee	Hourly Wage after 90 days
Retrainees						
Job Numbers 1 - 5	Menu Curriculum: Business Skills Computer Skills Continuous Improvement	378	36- 80	4- 8	\$500 – \$1,104	*\$11.15 - \$39.61
					<u>Range of Hourly Wages</u> *\$11.15 - \$39.61	
					<u>Prevalent Hourly Wage</u> \$11.15	
					<u>Average Cost per Trainee</u> \$894	
<u>Health Benefits used to meet ETP minimum wage:</u> *Health benefits ranging from \$.45 - \$1.40 will be added to the hourly wages for some of the trainees in Job Numbers 1, 3, and 4 to meet the ETP required minimum wage of \$11.15 per hour for San Bernardino County.				<u>Turnover Rate</u> 17%	<u>% of Managers to be trained</u> 0%	

MCLANE SUNEAST
d.b.a. MCLANE SOUTHERN CALIFORNIA
MENU CURRICULUM

Hours
Class/Lab

36 – 80

Trainees will be provided any of the following:

BUSINESS SKILLS

Listening/Communication Skills
Customer Service Skills
Sales Techniques
Written Communication Skills

COMPUTER SKILLS

Windows Systems Support Programs
Customer Relationship Management System
Windows Operating System/Application Upgrade
Web Based Products and Services
- Xata Order System
- Telxon Credit System

CONTINUOUS IMPROVEMENT

Problem Solving
Team Building
Leadership Skills
Total Quality Management
Decision Making
Motivation
Coaching

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MENU CURRICULUM

CBT
Hours

4 - 8

Trainees may complete any of the following:

BUSINESS SKILLS

Customer Service Skills

COMPUTER SKILLS

Windows Systems Support Programs
Customer Relationship Management System
Windows Operating System/Application Upgrade

CONTINUOUS IMPROVEMENT

Problem Solving
Leadership Skills
Total Quality Management
Decision Making